HEARING

ON

THE BUDGET REQUEST OF THE

DISTRICT OF COLUMBIA

FOR FISCAL YEAR 2005

Before the

Subcommittee on the District of Columbia
Committee on Appropriations
United States House of Representatives

The Honorable Rodney P. Frelinghuysen, Chairman

June 3, 2004, 10:00 a.m.
Rayburn House Office Building, Room 2362A

Testimony of
Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Mr. Chairman and members of the subcommittee. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia, and I am here today to testify on the District's budget. My remarks will briefly touch on the FY 2004 financial outlook, the FY 2005 request to the Congress, and the overall health of the District's finances.

Overarching Financial Goal

The Congress created the District's Office of the Chief Financial Officer to preserve and enhance the District's financial viability at all times. The District has made substantial progress in the last seven years, achieving a consistent series of balanced budgets and clean audits, and significantly improving its financial infrastructure. As part of this success, the District has had a $1.4 billion turn-around in fund balance, from a negative $518 million in 1996 to a positive balance of $897 million at the end of FY 2003. We had almost $254 million in cash reserves for emergency and contingency purposes at the end of fiscal year 2003, probably the largest such reserves as a percentage of budget in the entire nation. The culminating event to-date in FY 2004 is the recent two-notch upgrade in the rating on our General Obligation bonds from Moody's Financial Services, lifting our rating to the "A" category from all rating agencies for the first time ever. A brief timeline of how the District has recently improved its General Obligation bond ratings is provided in Attachment 1.

We continue to build on this record of accomplishment. Standardized spending plans for all agencies are now in place, and we are monitoring results against those plans using a new online financial management tool for controlling agency spending. Across all agencies, we are building performance budgets that set targets for accomplishments and benchmark these targets against best practices in local government.

The District has its own Anti-Deficiency Act to hold financial and program managers accountable for achieving program results within approved budgets. The first-ever local Anti-Deficiency report identifying agencies that have strayed from their approved budgets and spending plans in the first quarter of FY 2004 has been issued.

The District is making steady progress on its long-term replacement strategy for its administrative systems – the Administrative Services Modernization Program (ASMP) – spearheaded by the Office of the Chief Technology Officer. Over the next three years, all of the District's administrative systems – personnel, payroll, procurement, property management, and budget – will be upgraded and integrated with the System of Accounting and Reporting (SOAR). For the first time, the District will have a top quality, integrated information system with which to manage District operations. Already in operation is a new procurement system linked to our accounting system. A new budget system is scheduled to become operational in August 2004, a personnel system in November 2004 and a payroll system in July 2005.

With all of this evidence of ongoing fiscal prudence and commitment to sound fiscal management, it is time to grant the District local budget autonomy. It will allow the District to improve budget preparation and management quite significantly.

Without it we must prepare expenditure plans and revenue estimates at least nine months before the start of the fiscal year, adding more-than-usual uncertainty about the planned budget and difficulty in budget execution. Mr. Chairman, I am hopeful that the U.S. House of Representatives will soon act favorably in this regard.

FY 2004 Financial Outlook

Through the leadership and cooperation of our elected officials, the District made the necessary tough decisions to assure a balanced budget for FY 2004. As of this time, all identified spending pressures have been resolved through internal or interprogram reallocations. I am confident we will end FY 2004 with a balanced budget.

FY 2005 Budget Request

The Council of the District of Columbia voted on the FY 2005 budget proposal on May 14. The Council sent the budget to the Mayor for his signature on June 1st and the Mayor has ten working days to act on it (until June 15th). We will provide the Subcommittee with the final numbers as soon as they become available. I want to briefly summarize some of the key points in the FY 2005 proposal.

In total, the District's gross funds operating request for FY 2005 is $6.23 billion, an increase of $531 million, or 9.3 percent, over the approved FY 2004 level of $5.7 billion.

Local funds, taxes and fees paid by D.C. residents comprise about two-thirds of the gross budget, about $4.16 billion, an increase of about $332 million, or

8.7 percent, over approved FY 2004 levels (see Attachment 2). The total number of positions funded with local funds is 26,135 in FY 2005, a decrease of 110 positions, or 0.5 percent.

Please note that the expenditure growth for local funds in FY 2005 does not set the mold for FY 2006 and beyond. In fiscal years 2006, 2007, and 2008, expenditures are expected to grow more slowly, at 4.5, 4.3 and 4.5 percent, respectively. The FY 2005 budget includes important budget corrections or increases to recognize the true cost of providing the current level of services, including entitlements experiencing both higher provider rates and utilization, court orders' compliance costs, realistic Medicaid reimbursements, higher pension costs for prior years' pay raises for teachers, police officers and firefighters, as well as new operating costs from completed capital projects. Forty percent of the FY 2005 local funds growth rate of 8.7%, or $127 million of the $332 million increase, is due to one-time budget corrections for FY 2004 service level and rate increases (see Attachments 3 and 3A). The remainder of the growth – 5.3% (growth rate of 8.7% minus 3.4%) or $205 million – is anticipated service level and cost increases for FY 2005 alone. If we isolate service-level and rate increases for just FY 2005, and remove one-time budget corrections, the FY 2005 growth would be 5.3% rather than 8.7%, which is in-line with the out-year growth rates.

Cost Drivers

The increases in FY 2005 are driven by the cost of maintaining current programs at existing program levels, not by new program initiatives. All of the total increase of $332 million in local fund expenditures is related to maintaining current services. Program initiatives of $36.3 million are accommodated by reducing programs or shifting costs to other fund sources. Of the major cost drivers in the budget, two areas of note are Medicaid and Public Education. Attachment 4 provides the full list of cost drivers.

Medicaid. The FY 2005 proposed budget for Medicaid is $1.4 billion, or 22 percent of the District's gross funds budget. Total Medicaid program costs have risen 45.2 percent, and local fund costs by 30.9 percent, from FY 1999 to FY 2004. In FY 2005, Medicaid costs are projected by the Council to increase by $28 million, with an additional $20 million in reserves to be available if needed.

Several factors contribute to rising Medicaid expenditures, but they are in large part due to the cost of providing care to the District's aging and disabled populations. (In 2000, 20.3 percent of the District's population was disabled and 12.2 percent was over the age of 65.) The cost of caring for the District's aging and disabled populations has increased at a rate much faster than inflation because of price increases in prescription medications, the rapidly rising costs of nursing home services, and labor costs that continue to soar, driven by a nationwide shortage of nurses and new staffing requirements. The District has also experienced enrollment increases and has now reached 99 percent eligible enrollment status. This is attributable mainly to aggressive outreach campaigns and program expansions such as the Childless Adults Waiver that offers coverage for ages 50 – 64 up to 50 percent FPL and the expansion of the HIV/AIDS Waiver.

When we compared our Medicaid program with our neighboring states, we found that:

- 25 percent of the District's population is enrolled in Medicaid – compared to 12 percent in Maryland and 9 percent in Virginia.
- The District spends, on average, $7,242 per enrollee – compared to $5,509 in Maryland and $5,177 in Virginia.
- Per resident, D.C. spends $1,776 – compared to $649 in Maryland and $445 in Virginia.

Costs per enrollee are higher in the District, an entirely urban area, than in surrounding jurisdictions. Maryland and Virginia spread part of their service delivery over rural areas that have lower costs. In addition, health care costs in D.C. are increasing faster than the rate of inflation. Over the past year in the District of Columbia, health care costs increased by three percent, compared to a general inflation rate of only two percent. With higher costs per enrollee and a high proportion of its population in need, D.C. taxpayers carry a large burden for their fellow residents.

Public Education. Formula increases in public education for both D.C. Public Schools and Charter Schools add $71 million over the approved FY 2004 appropriation. However, these increases are needed to maintain schools as they operate today.

The Fiscal Forecast

The economic outlook for the District in FY 2005 is quite good, with a forecast growth in the baseline tax revenue of 5.4 percent. Retail sales, including tourist accommodations and restaurants as well as general retail, are expected to be up by five percent – reflecting current trends – as will individual and corporate income taxes. The real estate market continues to be very strong, with taxes on property sales remaining at all time highs and real property tax revenue expected to increase 11 percent in FY 2005.

The FY 2005-FY 2008 financial plan projects positive net operating margins each year. However, the District will operate on a very slim financial margin – about $2 million in FY 2005 – based on expenditure plans and forecasts of revenue growth. The 8.7 percent expenditure growth in the FY 2005 budget is financed through growth in current year revenues and the use of about $49 million in fund balance accumulated from prior years. Once used, a fund balance is gone and on-going expenditure requirements must ultimately be met with on-going revenue streams. Our financial plan shows that D.C. meets this requirement in the planning period (see Attachment 5).

Cash Reserve Requirements

In FY 2002, the District fully funded its Emergency and Contingency Cash Reserve Funds at their maximum required levels, totaling $248 million, or seven percent of the local expenditure budget. This was a significant accomplishment, five years ahead of the Congressionally mandated time frame, and it contributed significantly to the District's bond rating upgrades. Maintaining the seven percent level for the District's Cash Reserves required an increase to $254 million for FY 2003 and $285 million for FY 2004. In FY 2005 the emergency and contingency cash reserves combined are budgeted to reach $303 million. This is in addition to the $50 million in operating cash reserve maintained by the District. If I may, I would like to briefly summarize cash reserve requirements elsewhere as a reminder of how noteworthy the District's performance is in this area.

No other major city has a cash reserve requirement except Denver, which is required to have three percent of general fund expenditures in a reserve. Among states, most have some form of relatively flexible cash reserve or "rainy day" fund:

- The average size of these funds is approximately 5 percent of budget;
- Most states have no replenishment requirement, but 6 states require the funds to be replenished over the course of 2, 3, or 5 years; and
- In 21 states, the reserve funds can be used when the state faces a deficit for any reason, and in most other states the funds can be used in the event of a revenue shortfall.

The current cash reserve requirements constrain the District's flexibility to manage its finances. Working with Congress, the District has developed proposed changes to our cash reserve requirements (see Attachment 6). The language reflecting this proposal is included in the District's FY 2005 Budget Request Act and would continue appropriate fiscal prudence while reducing the overall requirement from seven to six percent (two percent Emergency and four percent Contingency). The proposed changes would modify the requirement for replenishment from one year to two years, with no less than 50 percent being paid back in the first fiscal year after use. The proposed changes would remove from the calculation of the seven percent cash reserve those expenditures associated with debt service, for which a separate reserve is already maintained under the District's Home Rule Act. Finally, the proposal would change the basis of the calculation of the emergency and contingency cash reserves from local fund expenditures as proposed in the District's upcoming fiscal year budget, to local fund expenditures as calculated in the annual Comprehensive Annual Financial Report, as audited by the District's independent auditors.

Structural Imbalance in the District's Budget

In the last seven years, the District has submitted balanced and responsible budgets during periods of increasing, as well as declining, revenues. Our restrained budgeting in the good years helped us work through some of the hard times. Despite a record of balanced budgets, the District has a serious long-term financial problem – a structural imbalance that transcends short-term challenges and cyclical revenue fluctuations. This structural imbalance is a long-term gap between the District's ability to raise revenue at reasonable tax rates and its ability to provide services of reasonable quality and quantity. The causes and consequences of this imbalance were well documented by the General Accounting Office in report GAO-03-666 in May 2003.

The GAO defines a financial structural imbalance as an inability to provide a representative array of public services by taxing at representative rates. Using this definition, many municipalities could legitimately claim to have a structural imbalance. Moreover, the District is unique among all municipal governments. It is the only city chartered in the Constitution of the United States and under the legislative jurisdiction of the Congress – that is, the District is the only federal city of the United States of America. It is the only city that has no state to share costs or underwrite expenditures in whole or part; instead, D.C. bears about $500 mil-lion annually in costs of mental health, human services, child and family services, a university, motor vehicle administration, taxation, insurance regulation, a Public Service Commission, and other state services.

The District is a city whose primary employer is self-determined to be exempt from tax on its property and exempt from tax on its income. Further, by federal law, the preponderance of workers in the District are exempt from D.C. income tax. Lastly, it is the only municipality in the country that must exercise the responsibilities of a city, county, state, and school district. Although the District has the taxing authority for all types of taxes typical of states and local governments combined, it does not have the corresponding tax base sufficient to pay for the services it must provide.

This structural imbalance necessitates some additional federal consideration of the District's infrastructure needs. The District faces about $3 billion in infrastructure needs – mostly in schools, streets and transportation – that cannot possibly be funded locally. D.C. already has the highest per capita general obligation debt in the nation and a tax burden that is 18 to 33 percent higher than average for the states. Our only local options for meeting these infrastructure deficiencies are 1) adding even more debt per capita – an action very much frowned on by the rating agencies, 2) increasing tax burden per capita – an action likely to discourage current and potential residents and employers, or 3) lower delivery of other types of services – a difficult choice in a city with an unusually large population of people in need.

The GAO strongly underscored the District's unique financial challenges in generating the funds to finance all usual and necessary services and identified an annual structural imbalance of $470 million to $1.14 billion between the costs of delivering typical services and the revenue available from typical tax burdens, based on FY 2000 budget and data. Over the years, the District dealt with this gap by neglecting infrastructure needs and assessing very high taxes.

For instance, the capital program is increasingly constrained by limited operating revenues to support debt service, as well as by the impact of prudent debt ratios and debt service affordability determinations. To maintain good standing with Wall Street, we must cap annual capital borrowing at $400 million in FY 2005, $350 million in FY 2006 and $300 million in FY 2007 and FY 2008. After considerable scrubbing, based on current realities, the estimated capital needs are $650 million in FY 2005; thus, the District's Capital Improvement Plan for FY 2005 has an expenditure gap of approximately $250 million.

Congresswoman Eleanor Holmes Norton authored bill H.R. 4269, the District of Columbia Fair Federal Compensation Act of 2004, which recognizes the District's unique needs and provides unique solutions. That Bill establishes a Dedicated Infrastructure Account within the general fund of the District. The fund would receive $800 million annually in federal monies, with growth adjustments over time. These monies could be used only for transportation including streets, information technology, and DCPS infrastructure developments and to support debt service payments on bonds, notes and other obligations of the District. Funds would remain available until expended.

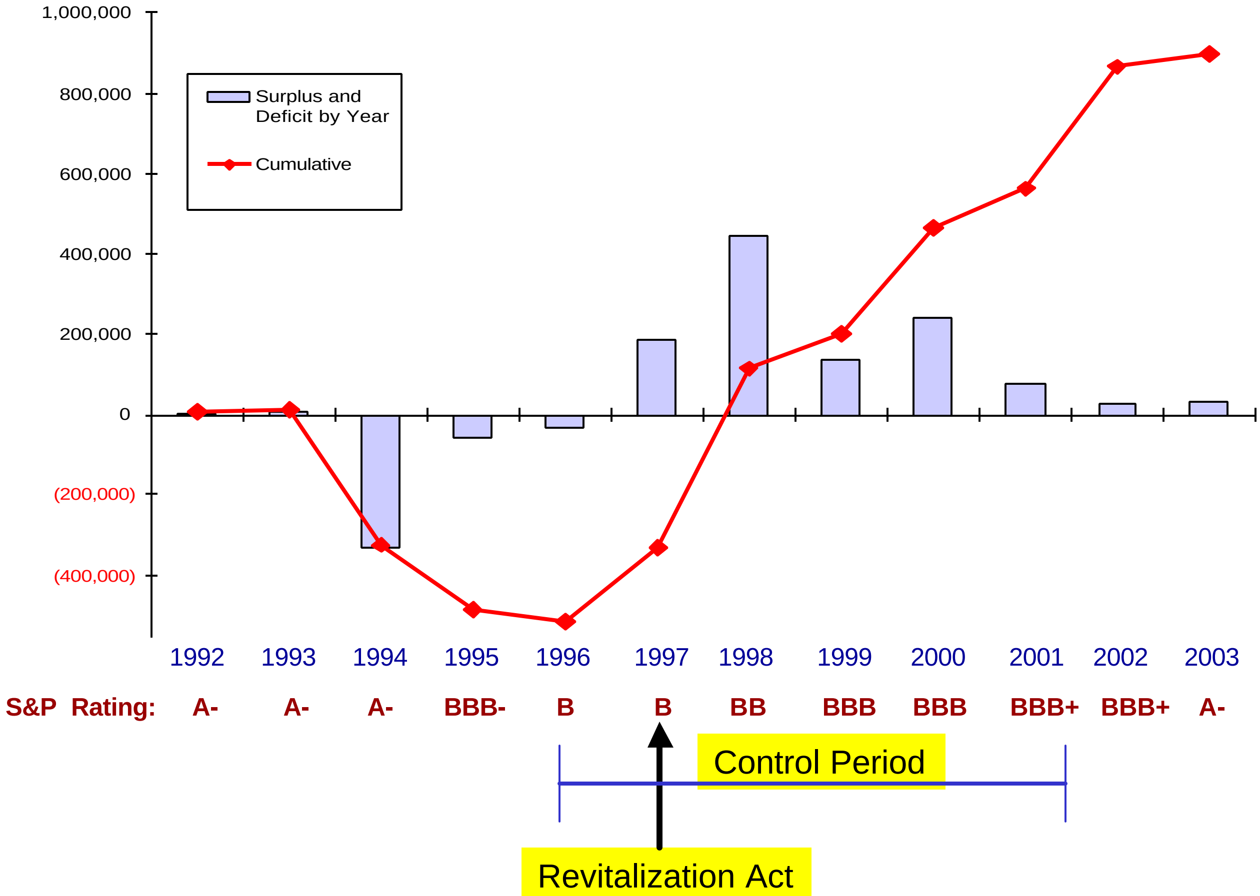
I urge the Congress to consider the Norton bill favorably. By providing for infrastructure development, it can help reverse the history of necessary neglect and move D.C. toward the shining example that should be set by the capital city of the free world. With so many financial accomplishments now well underway in D.C., this is the last major piece of the financial puzzle, and the District cannot prosper into the future without it.

Conclusion

Mr. Chairman, this concludes my remarks. I request that my testimony be made part of the record. I will be pleased to answer any questions you or the other members may have.

Attachment 1

FY92 – 03 Annual and Cumulative Surpluses and Bond Ratings



District of Columbia General Obligation Bond Ratings			
Time Period	Moody's	Standard & Poor's	Fitch
4/04 - Present	A2	A-	A-
6/03 - 4/04	Baa1	A-	A-
3/01 - 6/03	Baa1	BBB+	BBB+
2/01 - 3/01	Baa3	BBB+	BBB
6/99 - 2/01	Baa3	BBB	BBB
4/99 - 6/99	Ba1	BBB	BB+
3/98 - 4/99	Ba1	BB	BB+
5/97 - 3/98	Ba2	B	BB
4/95 - 5/97	Ba	B	BB
2/95 - 4/95	Ba	BBB-	BB
12/94 - 2/95	Baa	A-	BBB+
4/93 - 12/94	Baa	A-	A-
5/90 - 4/93	Baa	A-	NR
11/84 - 5/90	Baa	A	NR

Growth Rates, Local Funds Expenditures, FY 1999 - FY 2008

(Dollars in thousands, using FY 2004 Approved for FY 2004 data)

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Approved	FY 2005 Council	FY 2006 Projected	FY 2007 Projected	FY 2008 Projected
Governmental Direction and Support	197,126	255,251	233,266	248,011	199,089	206,824	261,067	268,816	277,931	287,196
		29.5%	-8.6%	6.3%	-19.7%	3.9%	26.2%	3.0%	3.4%	3.3%
Economic Development and Regulation	41,521	49,338	54,524	56,071	56,520	53,336	55,764	57,234	58,852	60,558
		18.8%	10.5%	2.8%	0.8%	-5.6%	4.6%	2.6%	2.8%	2.9%
Public Safety and Justice	488,964	524,829	579,571	628,511	646,732	716,715	760,848	795,972	822,335	850,618
		7.3%	10.4%	8.4%	2.9%	10.8%	6.2%	4.6%	3.3%	3.4%
Public Education System	654,531	728,125	962,412	926,254	909,354	962,941	1,058,709	1,087,129	1,114,314	1,143,086
		11.2%	32.2%	-3.8%	-1.8%	5.9%	9.9%	2.7%	2.5%	2.6%
Human Support Services *	822,538	950,313	1,105,420	1,067,242	1,242,888	1,085,277	1,204,577	1,247,829	1,299,370	1,353,948
		15.5%	16.3%	-3.5%	16.5%	-12.7%	11.0%	3.6%	4.1%	4.2%
Public Works	251,389	257,933	287,367	297,336	293,952	308,029	312,035	324,712	338,226	352,435
		2.6%	11.4%	3.5%	-1.1%	4.8%	1.3%	4.1%	4.2%	4.2%
Financing and Other	420,781	368,070	290,310	286,050	322,491	499,612	512,484	570,738	628,776	698,074
		-12.5%	-21.1%	-1.5%	12.7%	54.9%	2.6%	11.4%	10.2%	11.0%
Total	**2,876,850**	**3,133,859**	**3,512,869**	**3,509,476**	**3,671,026**	**3,832,734**	**4,165,484**	**4,352,429**	**4,539,805**	**4,745,915**
		8.9%	**12.1%**	**-0.1%**	**4.6%**	**4.4%**	**8.7%**	**4.5%**	**4.3%**	**4.5%**

Note: "Receiverships" added to "Human Support Services" for FYs 1998-2002

* Portion of "Contingency" related to Human Support Service agencies is added to this line, FY 2005 and beyond, for illustrative purposes.

Actual growth rate, FY 1998 - FY 2003:	**Total**	**Annual**
Governmental Direction and Support	1.0%	0.2%
Economic Development and Regulation	36.1%	8.0%
Public Safety and Justice	32.3%	7.2%
Public Education System	38.9%	8.6%
Human Support Services	51.1%	10.9%
Public Works	16.9%	4.0%
Financing and Other Uses	-23.4%	-6.4%
Total	**27.6%**	**6.3%**

Attachment 2

Attachment 3

Office of the Chief Financial Officer
Office of Budget & Planning

FY 2005 ***Council Approved*** Budget:

Extraordinary Expenditure Baseline Adjustments

(*in millions)*

	Descriptions		Amount	Est. % of FY2005 Growth
1	Additional Court Order Compliance (Includes: MRDDA, YSA, Foster Care, and Special Ed. Transportation)	$	31	0.8%
2	Rightsizing: a) MAA's local funds budget for Medicaid FY 2004 Growth, $21.0M, and Rightsizing DMH 's local funds budget for lower Medicaid Reimbursement Revenues, $17.0M	$	38	1.0%
3	One-time Grant Disallowance in FY2004 not in FY 2005	$	(57)	-1.5%
4	Increase in Debt Service	$	44	1.2%
5	Operating Costs From Completed Capital Projects for OCTO, OCFO and DP&R projects	$	30	0.8%
6	Higher pension costs related to priors years' pay raises for teachers ($9.0M), police & firefighters ($16.0M)	$	25	0.7%
7	HCSN FY 2004 recurring contract increase of $13.0M with a $3.0M contingency	$	16	0.4%
	Net, One-time Baseline Adjustments	$	127	3.4%
	Growth Rate for the FY 2005 Proposed Budget	$	332	8.7%
	Net Growth for FY 2005	$	205	5.3%
	Financial Plan Growth Rates: FY 2006	$	173	4.4%
	FY 2007	$	201	4.3%
	FY 2008	$	195	4.5%

Attachment 3A

Growth Rates, Local Funds, FY 2002 - FY 2008
(Dollars in thousands)

	FY 2002 Actual	FY 2003 Actual	FY 2004 Approved	FY 2004 Revised	FY 2005 Council	FY 2006 Projected	FY 2007 Projected	FY 2008 Projected
Revenues (no fund balance or enhancements)								
Historical 2002-2003	3,483,341	3,702,231						
Baseline, 2004 (Rev.) - 2008				3,798,089	3,992,277	4,178,164	4,339,126	4,480,165
Growth		6.3%		2.6%	5.1%	4.7%	3.9%	3.3%
Revenues <u>(including enhancements 2005-2008 plus $30 million to $50 million in taxes plus Lottery increase)</u>								
Historical 2002-2003	3,483,341	3,702,231						
2004 (Rev.) - 2008				3,828,089	4,111,897	4,350,069	4,563,402	4,747,191
Growth		6.3%		3.4%	7.4%	5.8%	4.9%	4.0%
Resources <u>(revenues + enhancements + increases + fund balance / transfer from federal for indirect costs)</u>								
Historical 2002-2003	3,483,341	3,702,231						
2004 (Rev.) - 2008				3,957,512	4,167,623	4,356,571	4,570,062	4,754,018
Growth		6.3%		6.9%	5.3%	4.5%	4.9%	4.0%
Expenditures								
Actual/Projected	3,509,474	3,671,026	3,832,734	3,864,934	4,165,484	4,352,429	4,539,805	4,745,915
Growth		4.6%		5.3%	7.8%	4.5%	4.3%	4.5%

Growth:	
2005 over 2004 <u>Approved</u>	8.7%
2005 over 2004 <u>Revised</u>	7.8%

	FY 2002	FY 2003	FY 2004 Approved	FY 2004 Revised	FY 2005	FY 2006	FY 2007	FY 2008
Consumer Price Index, Washington Metro Area:								
Historical 02-03, projected 04-08	2.2%	3.0%	1.8%	1.8%	2.0%	1.9%	2.1%	2.2%

Attachment 4

	Category/Agency	Baseline Increase	Mayor Category Increase	Council Category Increase
1	**FY 2004 Approved Budget**	**3,832,734**	**3,832,734**	**3,832,734**
2				
3	**Inflationary/Formula/Current Law Baseline Adjustments**			
4	Reserve Requirements	92,520	25,472	0
5	Debt Service	41,941	43,241	41,441
6	FY 2005 Inflation Increases	43,656	38,516	38,103
7	Pension Obligations	27,308	27,308	27,308
8	Multi-jurisdictional Agreements	3,570	4,070	2,523
9	Public Education Formula increases	78,725	64,292	70,985
10	Elimination of one-time Grant Disallowance	(57,000)	(57,000)	(57,000)
11	Local Legislative Requirements	10,094	(119)	9,683
12	**Total Inflationary/Formula Baseline Adjustments**	**240,814**	**145,780**	**133,043**
13				
14	**Baseline Adjustments for Entitlement/Court Ordered Functions**			
15	Medicaid related adjustments	49,190	41,805	28,105
16	Court order adjustments	37,629	46,598	20,585
17	**Total Baseline Adjustments for Entitlement/Court Ordered Functions**	**86,819**	**88,403**	**48,690**
18				
19	**Technical Baseline Adjustments**			
20	FY 2005 Impact of FY 2004/FY 2005 Policy Decisions	36,841	43,265	91,510
21	Operating Impact of Capital Projects	42,020	29,720	29,720
22	Contractual Increases/Fixed Cost	28,817	32,788	29,788
23	**Total Mandatory Technical Baseline Adjustments**	**107,678**	**105,773**	**151,018**
24				
25				
26	**Total Major Cost Drivers for FY 2005 Baseline Budget**	**435,310**	**339,955**	**332,750**
27				
28	**FY 2005 Proposed Budget**	**4,268,044**	**4,172,689**	**4,165,484**

Attachment 5

DRAFT

Local Funds Component of the General Fund Financial Plan
($ thousands)

	Revenues	FY 2003 Actual	FY 2004 Approved	FY 2004 Adjusted	FY 2005 COUNCIL	FY 2006 Projected	FY 2007 Projected	FY 2008 Projected
1	Taxes	3,293,374	3,339,913	3,471,217	3,678,730	3,874,565	4,032,426	4,179,345
2	General Purpose Non-Tax Revenues	315,780	289,201	286,672	292,447	284,699	289,940	286,290
4	Transfer from Lottery	72,050	70,200	70,200	73,100	72,100	72,100	72,100
5	**General Fund Revenues (Local)**	**3,681,204**	**3,699,314**	**3,828,089**	**4,044,277**	**4,231,364**	**4,394,466**	**4,537,735**
6	Fund Balance Use	1,802	96,498	129,423	49,365	0	0	0
7a	Revenue Enhancements	0	38,760	0	67,620	94,705	91,807	92,456
7b	Suspension of Tax Parity	0	0	0	0	24,000	77,129	117,000
8	Transfer from Federal and Private Resources	0	0	0	6,361	6,502	6,660	6,827
9	**Total General Fund Resources (Local)**	**3,683,006**	**3,834,572**	**3,957,512**	**4,167,623**	**4,356,571**	**4,570,062**	**4,754,018**
	Expenditures (by Appropriation Title)							
10	Governmental Direction and Support	199,089	206,824	220,924	261,067	268,816	277,931	287,196
11	Economic Development and Regulation	56,520	53,336	55,036	55,764	57,234	58,852	60,558
12	Public Safety and Justice	646,732	716,715	728,115	760,848	795,972	822,335	850,618
13	Public Education System	909,354	962,941	990,941	1,058,709	1,087,129	1,114,314	1,143,086
14	Human Support Services	1,242,888	1,085,277	1,113,277	1,165,315	1,206,604	1,255,672	1,307,628
15	Public Works	293,952	308,029	305,629	312,035	324,712	338,226	352,435
16	Financing and Other	322,491	390,672	391,772	458,609	509,758	560,681	602,856
16a	Contingency - Human Support	0	0	0	39,262	41,225	43,699	46,321
16b	Contingency - Other	0	0	0	3,875	3,980	4,095	4,218
17	Tax Increment Financing (TIF)	0	1,940	1,940	0	0	0	0
18	Grant Disallowances	0	57,000	57,000	0	0	0	0
19	Cash Reserve (Budgeted Contingency)	0	50,000	300	50,000	50,000	50,000	50,000
20	Tobacco Trust Fund (Program Funds)	0	0	0	0	2,000	4,000	6,000
21	Tobacco Trust Fund (Investment Funds)	0	0	0	0	0	0	0
22	Operating Costs of Capital and Lease Purchases	0	0	0	0	5,000	10,000	35,000
23	Deposit into the Emergency Reserve Fund (4%)	0	0	0	0	0	0	0
24	Deposit into the Contingency Reserve Fund (3%)	0	0	0	0	0	0	0
25	**Total General Fund Expenditures (Local)**	**3,671,026**	**3,832,734**	**3,864,934**	**4,165,484**	**4,352,429**	**4,539,805**	**4,745,915**
26	**Operating Margin, Budget Basis**	**11,980**	**1,838**	**92,578**	**2,139**	**4,142**	**30,257**	**8,103**
27	**Beginning General Fund Balance**	**865,328**	**897,357**	**897,357**	**789,857**	**613,010**	**597,152**	**607,408**
28	Operating Margin, Budget Basis (General Fund)	53,684	1,838	92,578	2,139	4,142	30,257	8,103
29	Projected GAAP Adjustments (Net)	(21,655)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
30a	Deposits into 4% & 3% Reserve Funds (From Fund Balance)	(5,069)	(31,609)	(31,609)	(18,122)	(5,546)	(23,091)	(14,470)
30b	Deposits into 4% & 3% Reserve Funds (To Cash Reserves)	5,069	31,609	31,609	18,122	5,546	23,091	14,470
31a	TIF Reserve	0	0	0	(9,710)	(9,710)	(9,710)	(9,710)
31b	Unspent TIF Reserve	0	1,940	1,940	9,710	9,710	9,710	9,710
32	Fund Balance Use	0	(149,093)	(182,018)	(158,986)	0	0	0
33	**Ending General Fund Balance**	**897,357**	**732,042**	**789,857**	**613,010**	**597,152**	**607,408**	**595,511**
	Composition of Fund Balance							
34	Emergency Cash Reserve Balance (4%)	145,029	163,091	163,091	179,011	182,316	189,810	198,079
35	Contingency Cash Reserve Balance (3%)	108,771	122,318	122,318	124,520	126,761	142,358	148,559
36	Fund Balance not in Emergency & Contingency Reserves	643,557	446,633	504,448	309,479	288,074	275,240	248,873
37	**Ending General Fund Balance (Line 33)**	**897,357**	**732,042**	**789,857**	**613,010**	**597,152**	**607,408**	**595,511**

Note: General Fund Balance calculations are preliminary and will adjust as the Special Purpose Revenue (O-type) budget is finalized.

Attachment 6

CASH RESERVE REQUIREMENTS

Impact of Proposed Legislative Changes

($000)

Cash Reserves as Currently Shown in the Mayor's FY 2005 Proposed Budget and Financial Plan:

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Emergency Contingency Cash Reserve	$248,731	$253,800	$285,409	$303,111	$308,583	$331,079	$345,333
Budgeted Cash Reserves	$0	$0	$0	$50,000	$50,000	$50,000	$50,000
Total	**$248,731**	**$253,800**	**$285,409**	**$353,111**	**$358,583**	**$381,079**	**$395,333**

Cash Reserves Revised to Reflect the Impact of Proposed FY 2005 Changes:[1]

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Emergency Contingency Cash Reserve	$248,731	$253,800	$285,409	$247,003	$251,449	$255,975	$260,583
Budgeted Cash Reserves	$0	$0	$0	$50,000	$50,000	$50,000	$50,000
Total	**$248,731**	**$253,800**	**$285,409**	**$297,003**	**$301,449**	**$305,975**	**$310,583**

[1] Note: Because the District will not remove funds based upon the reduction to 6%, the FY 2005 – FY 2008 funds exceed the proposed 6% requirement. The total cash reserves using the 6% requirement for FY 2005 – FY 2008 would be as follows:

Cash Reserves Using a 6% Requirement:	FY 2005	FY 2006	FY 2007	FY 2008
Emergency Contingency Cash Reserve	$211,717	$225,827	$245,776	$249,962
Budgeted Cash Reserves	$50,000	$50,000	$50,000	$50,000
Total	**$261,717**	**$275,827**	**$295,776**	**$299,962**
Excess of Proposed FY 2005 Changes Over a 6% Requirement:	**$35,286**	**$25,622**	**$10,199**	**$10,621**